Investment Idea

EG Industries Bhd

Optical Production Scale-up

By Crystal Chin

BUY

Price: RM1.08

Target price: RM1.90

EG Industries Bhd (EG: 8907) is a global electronic manufacturing services (EMS) and vertical integration (VI+) provider. Following the operational ramp-up of its PG2 Batu Kawan Smart Factory under its collaboration with Cambridge Industries Group (CIG), earnings visibility has improved as utilisation normalises and optical module production scales. We revise our core net profit forecast to RM105.2m for FY26F and introduce FY27F net profit of RM137.3m, reflecting stronger contributions from high-speed optical modules. We reiterate our BUY call with a higher target price of RM1.90 (previously RM1.40), based on a PE of 16x over FY26F EPS.

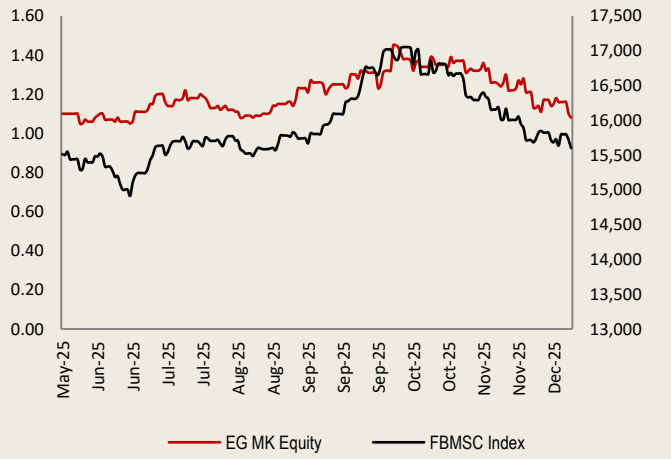
1QFY26 net profit declined 32.2% YoY to RM24m, mainly due to forex loss on strengthening MYR. More importantly, core profit increased 21.3% YoY to RM23.9m, supported by a more favourable product mix and improved production yield, indicating that the earnings weakness was non-operational in nature.

Looking ahead, we expect EG's earnings to be supported by a more favourable revenue mix, led by higher contributions from 5G wireless access and photonics, alongside industrial and consumer electronics as well as network switches. The shift towards higher value-added products should continue to underpin margin improvements. EG has shown improving margins from 1% in FY22 to 7.7% in FY25, reflecting EG's successful upstream transition into optical modules, better product mix, and improving manufacturing efficiency.

EG is targeting to confirm mass production of 800G optical modules in 2026, with 1.6T optical modules expected by 4Q26, solidifying its position within the next-generation optical connectivity. The ramp-up of 800G and future 1.6T optical modules represents a shift towards higher average selling price and better product margins. This differentiates EG from traditional EMS peers and strengthening its role in the global 5G and data centre supply chain.

The PG2 Batu Kawan plant, which commenced operations in June 2025, is now fully utilised as alluded by management. This is driven by strong demand from key customers, particularly under the CIG partnership which contributed more than 50% of Group's revenue. We expect revenue growth to flow through more meaningfully to earnings, supporting further margin expansion into FY26–FY27. The deepening collaboration with CIG enhances earnings visibility through a multi-generation optical module roadmap spanning 800G to 1.6T, supporting order sustainability and long-term growth.

Despite short-term earnings volatility from forex vagaries, we believe EG is entering into a multi-year earnings upcycle, underpinned by (i) optical module ramp-up, (ii) high utilisation rate from PG2, and (iii) strong demand from 5G and data centre applications. We expect its net gearing improving to 0.6x from 0.83x in FY25, supported by stronger cash generation. The Group's effective tax rate is expected to remain low due to existing tax incentives. Overall, we maintain a positive view on EG as one of the few Malaysian EMS players with meaningful exposure to next-generation photonics.



KLCI	1,646.90
YTD FBM KLCI change	+0.28%
YTD FBM SC Index change	-12.11%
YTD stock price change	-11.8%

Stock Information

Market Cap (RMm)	982.5
Issued Shares (m)	909.7
52-week range (H)	1.53
52-week range (L)	0.80
Shariah Compliant	Yes

Major Shareholders

Kang Kiang Pang	10.6%
KPK Capital	6.8%
QYH Capital SB	6.7%

Summary Earnings Table

FY June (RM'm)	2024A	2025A	2026F	2027F
Revenue	1,144.2	1,087.2	1,716.1	2,200.1
EBIT	76.8	114.4	165.6	215.0
Pretax profit	49.7	80.4	111.9	146.1
PATMI	**49.7**	**84.1**	**105.2**	**137.3**
Core PATMI	**49.7**	**84.1**	**105.2**	**137.3**
Consensus	-	-	104.5	139.0
Core EPS (sen)	5.6	9.5	11.8	15.5
EPS growth (%)	28%	69%	25%	31%
DPS (sen)	0.1	0.5	0.5	0.5
PER (x)	19.1	11.3	9.0	6.9
BV/Share (RM)	0.68	0.68	0.68	0.68
ROE (%)	7.5%	8.3%	14.0%	17.5%
Div. Yield (%)	0.1%	0.5%	0.4%	0.5%

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:

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